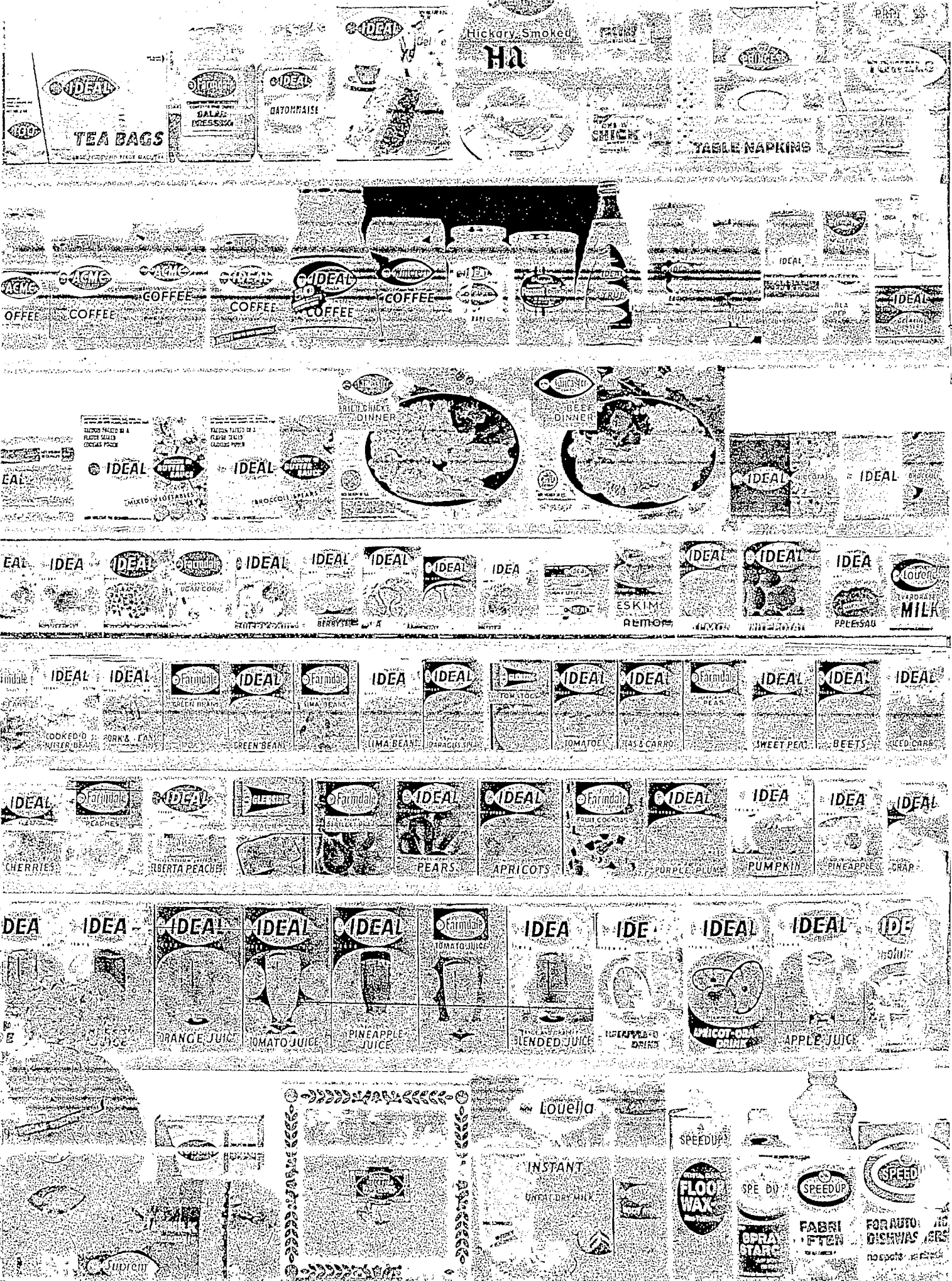


ACME MARKETS, INC. ANNUAL REPORT Fiscal Year Ended April 2, **1966**



Philadelphia, Pa.
May 24, 1966

Sales for the 52 weeks ended April 2, 1966 totaled \$1,200,749,822. This represents a gain over the preceding 53 weeks of \$39,551,529, and another new record.

Earnings showed a decline, however, and are reported at \$3.73 per share on 2,799,845 shares outstanding compared to \$4.58 per share adjusted for the last stock dividend. Intense competition in much of our area, higher costs for products, materials and supplies and increased wages caused a narrowing of profit margins. Retail prices did not increase as much as the increase in costs. At the start of the year we made the basic decision that it was in our best long term interest to maintain sales volume even if it meant a temporary reduction in profit. The soundness of this decision is beginning to show as each successive quarter of the year recorded an improvement in profit performance.

Since the start of the new fiscal year, our sales trend has continued to improve. April sales were \$94,646,636 or 3.6% ahead of a year earlier and the May trend continues strong.

As a part of our planning for the current fiscal year, a management meeting was held in each of our seven Eastern divisions. These meetings not only celebrated the 75th Anniversary of the founding of our Company but they served also to introduce the sales promotion plans for the year. The officers of the Company attended each meeting and the enthusiasm, spirit, and determination evidenced by these management groups was most encouraging.

The March Board of Directors meeting was held at the office of Alpha Beta Acme Markets, Inc., La Habra, California. The meeting was held in conjunction with a visit of the Board to Alpha Beta facilities in a salute to the Alpha Beta organization on the occasion of the fifth anniversary of the merger of the two companies.

All present were most favorably impressed with the fine physical facilities of Alpha Beta, but more importantly by the high quality and character of the men and women who make up this organization. Since our merger five years ago Alpha Beta has increased the number of its supermarkets from 51 to 128, with 4 drug stores and 4 coffee shops. Also as part of its expansion, a 576,000 square foot distribution center was placed in operation a year ago and a fluid milk plant is presently under construction. Included in the store program for the future is the San Francisco Bay Area. Our first stores in this rapidly expanding market will open in 1967.

Immediately following the Annual Meeting in June 1965 Mr. John R. Park, who has served the Company for twenty-seven years, seven of which were as executive vice president, was elected president of the Company; Mr. Paul J. Cupp was re-elected chairman of the board and continued as chief executive officer. All the other officers were re-elected.

In September Mr. Thomas T. Oyler joined our organization and was elected a vice president with full responsibility for corporate financial matters. Mr. Oyler brings to Acme a background of eighteen years experience in chain store corporate management.

The Board after its March meeting announced that it has accepted with regret the resignation of Mr. David M. Park as a director and treasurer of the Company. Because of personal and family considerations it was necessary for Mr. Park to reduce business responsibilities at this time. Mr. Oyler was elected treasurer also, and Mr. John G. C. Fuller an assistant treasurer.

During the past year we have examined every phase of our business. We have carefully worked out the plans for the coming year with each of our operating divisions. In 1966 sales should increase and the improving earnings trend continue.

Respectfully submitted

Paul J. Cupp

Chairman, Board of Directors

John R. Park

President

A group of the many Acme and Alpha Beta products

The Acme brands pictured on the opposite page are a representative group of the many outstanding values offered under our labels.

Sales Sales registered a gain of 3.4% over the previous year. Sales for the 52 weeks ended April 2, 1966 totaled \$1,200,749,822 compared with \$1,161,198,293 for the 53 weeks ended April 3, 1965.

After careful study, this February we introduced trading stamps in our Buffalo Division despite the fact that less than a year earlier we had discontinued them in Northern New Jersey, certain parts of Pennsylvania, and other parts of New York. Different competitive situations require different merchandising approaches. Recent sales trends seem to indicate that the right decision was made in each area where a change was made in the trading stamp program.

Earnings Earnings for the fiscal year declined to \$3.73 per share compared with \$4.58 the prior year, adjusted for the 5% stock dividend paid March 31, 1966. Net earnings after taxes were \$10,450,144 compared with \$12,883,599 the previous year. A short but costly work interruption in the early part of the year in the Philadelphia Division, intense competition, and higher costs affected profits. However, after the first period of the year, each quarter's profit performance was better than the preceding one.

Cash Dividends Total cash dividends paid by the Company again increased and were \$5,347,883 compared with \$5,126,854 the previous year.

A 5% stock dividend was also paid on March 31, 1966. This was the thirteenth consecutive annual 5% stock dividend paid by the Company and involved the issuance of 136,186 shares valued at \$6,809,300.

Financial Positions Working capital decreased to \$72,429,212 compared with \$76,298,880 the previous year. Items which contributed to this, as is shown by the Source and Disposition of Funds Statement on page 8, were the record amount expended for plant and equipment, and the purchase of shares of the Company's outstanding stock which are currently held as treasury stock.

Capital expenditures increased to \$26,129,410 compared with \$20,085,000 the previous year. The increase was principally due to the work done at the new distribution facilities and plants mentioned elsewhere in this report, and also to the purchase of a number of store sites which are currently in the process of being developed. During the past ten years capital expenditures have totaled \$154,569,000.



Paul J. Cupp and Claude W. Edwards review Alpha Beta's real estate program.

Artist's sketch of recently opened Alpha Beta Market in the Beverlywood, California area.



All dollar amounts are expressed in thousands, except per share and per sales dollar figures.

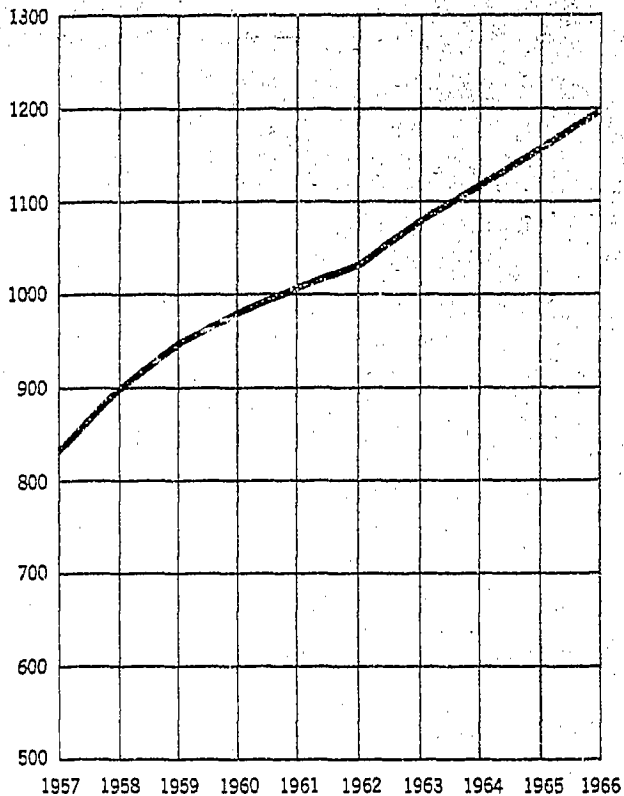
52 WEEKS ENDED	April 2, 1966	April 3, 1965 ^(a)	March 28, 1964	March 30, 1963	March 31, 1962	April 1, 1961	April 2, 1960 ^(a)	March 28, 1959	March 29, 1958	March 30, 1957
Sales	\$1,200,750	1,161,198	1,118,686	1,081,061	1,034,879	1,011,489	982,103	953,410	900,526	835,838
Earnings before income taxes	18,685	24,314	28,120	27,091	28,230	27,543	22,467	25,324	23,632	21,819
Federal and State income taxes	8,235	11,430	14,530	14,030	14,900	14,870	11,710	13,291	12,296	11,288
Net earnings	10,450	12,884	13,590	13,061	13,330	12,673	10,757	12,033	11,336	10,531
Cash dividends	5,348	5,127	4,924	4,680	4,439	4,377	4,534	3,857	3,999	3,703
Earnings for year retained in business	5,102	7,757	8,666	8,381	8,891	8,296	6,223	8,176	7,337	6,828
Net earnings per sales dollar	0.87¢	1.11¢	1.21¢	1.21¢	1.29¢	1.25¢	1.10¢	1.26¢	1.26¢	1.26¢
Earnings per share of common stock ^(b)	3.73	4.58	4.76	4.59	4.70	4.49	3.83	4.30	4.08	3.80
Cash dividends per share of common stock ^(c) ..	1.90	1.81	1.72	1.64	1.56	1.51	1.53	1.34	1.41	1.30
Stock dividends	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Current assets	144,108	140,200	140,533	131,413	124,839	117,195	112,006	106,169	101,572	92,740
Current liabilities	71,679	63,901	62,267	56,396	56,683	51,614	49,283	42,958	43,779	40,850
Working capital	72,429	76,299	78,266	75,017	68,156	65,581	62,723	63,211	57,793	51,890
Current ratio	2.01	2.19	2.26	2.33	2.20	2.27	2.27	2.47	2.32	2.27
Plant and equipment additions	26,129	20,085	17,590	13,505	15,752	10,129	15,607	13,207	10,311	12,254
Provision for depreciation and amortization ..	12,744	11,834	10,843	10,464	9,694	9,032	8,768	8,203	7,095	6,490
Net plant and equipment	110,371	97,881	89,678	83,022	80,719	76,736	76,401	69,417	66,041	61,865
Total assets	257,357	240,461	232,968	217,327	209,064	196,069	190,855	178,996	171,387	156,626
Long-term debt, less current instalments	15,658	11,737	12,910	14,080	16,801	18,378	21,193	23,120	23,422	21,722
Common shares outstanding at year-end	2,799,845	2,680,992	2,588,208	2,459,730	2,334,129	2,214,849	2,097,369	1,995,080	1,897,050	1,807,332
Common stockholders' equity:										
Total	158,479	154,263	148,947	140,096	131,481	122,338	113,814	107,319	98,897	91,279
Per share ^(b)	56.60	54.80	52.20	49.20	46.34	43.28	40.50	38.36	35.53	32.90
Number of retail stores at year-end:										
Super markets	841	857	859	836	811	799	812	809	818	794
Other stores	61	72	24	26	34	41	50	65	75	140
Total stores	902	929	883	862	845	840	862	874	893	934

(a) 53 week period.

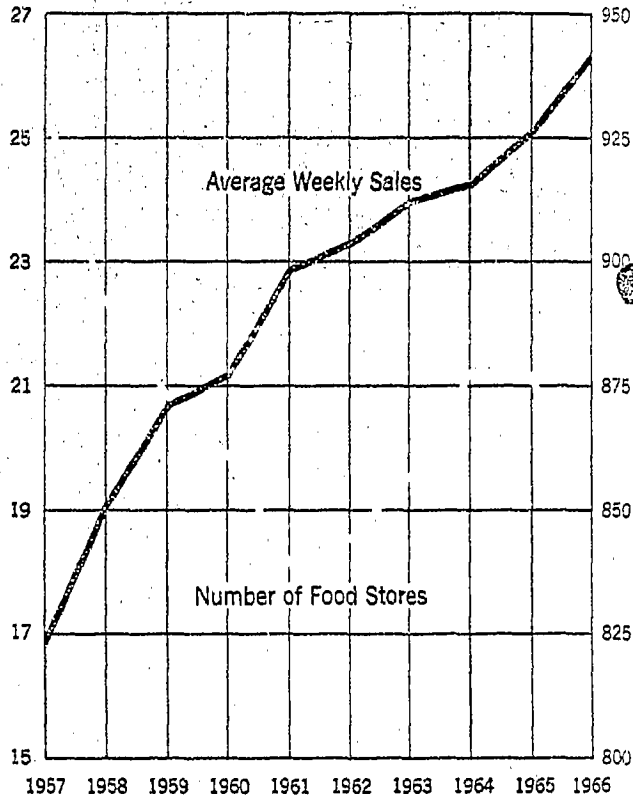
(b) Based on shares of stock outstanding at year-end, adjusted for subsequent stock dividends.

(c) Based on shares of stock outstanding at year-end, adjusted for subsequent stock dividends and including dividends paid by an acquired company prior to merger (which in fiscal 1960 included five quarterly dividends). In each of the ten years cash dividends were declared on shares of Acme Markets, Inc. common stock then outstanding at the rate of \$2.00 per share.

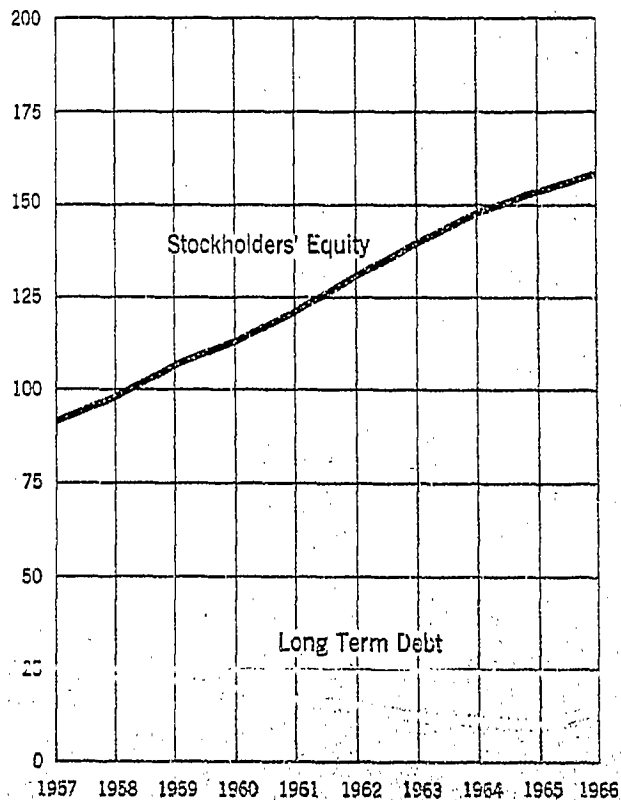
Sales
MILLIONS OF DOLLARS



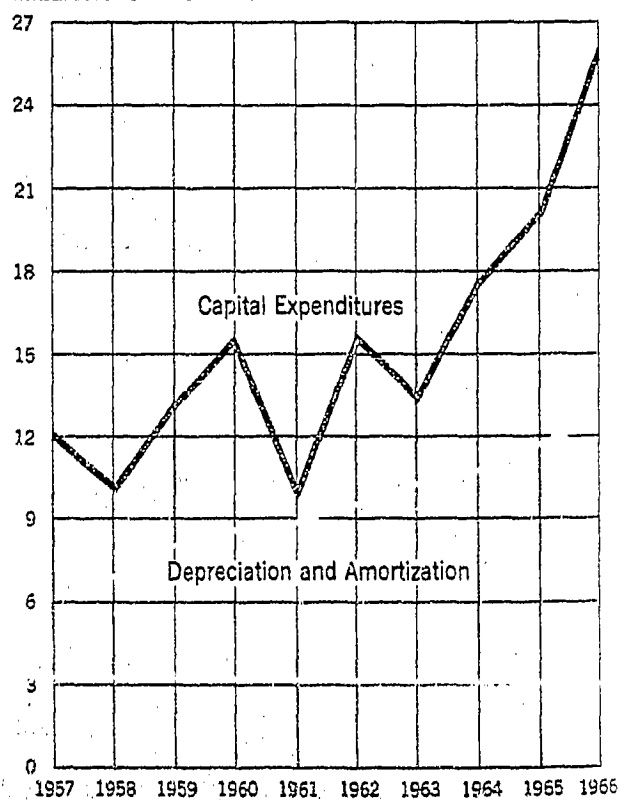
**Average Weekly Sales Per Food Store and
THOUSANDS OF DOLLARS Number of Food Stores**



Stockholders' Equity and Long Term Debt
MILLIONS OF DOLLARS



Capital Expenditures and Depreciation
MILLIONS OF DOLLARS



The ratio of current assets to current liabilities was 2.01 to 1 compared with 2.19 to 1 last year. Working capital continues to be adequate for the needs of the Company.

Store Program During the year 32 new food stores were opened including 15 at Alpha Beta. This was an increase of 6 stores over the number opened the prior year, but still short of our projection. However, additions were made to 11 existing stores and a number of others were remodeled. Our plans call for an increased number of stores to be opened in the current year.

Rea & Derick, Inc. closed 3 drug stores. The 3 new units that they had planned for last year will be opened this year along with at least 3 additional stores.

During the year 56 food stores were closed. Your management decided to close these stores even though our building program had not kept pace with our projections. Included in those closed during the year were 2 on Long Island, N. Y. Since the end of the year our remaining 5 food stores on Long Island have been sold. Our representation in this market was not adequate. It seemed advisable to discontinue an unprofitable operation and concentrate our attention on other areas.

Although we closed more stores last year than we opened, at the end of the year we had a net gain in total sales area and sales per square foot of sales space.

As of the year-end, the Company had 902 stores in operation including 44 drug stores operated by Rea & Derick, Inc. and 4 Hy-Lo Drug Stores operated by Alpha Beta.

Facilities The new perishables and frozen foods distribution facilities in Philadelphia, which were mentioned in last year's report, are in operation. These warehouses are making a substantial contribution to our ability to serve our customers with fine products through a fast, efficient, and economical distribution system.

We regret the fact that the General Distribution Center in Philadelphia, also mentioned in last year's report, has not yet been opened. This is due to our inability, thus far, to conclude satisfactory arrangements with the labor unions involved.

Modernization of our plants continues. Improvements and additions have been made at our canning plant at Hurlock, Maryland. Further additions are now under construction. These changes will

further improve the efficiency of this plant which cans a number of fine fruits and vegetables under our own labels. The capacity of our meat plant at Lincoln, Nebraska will be increased this year to enable us to supply our stores with more of the quality Lancaster Brand meat products.

General We have improved our physical facilities at both the retail and distribution levels.

Our merchandising plans and operating procedures for the year have been carefully worked out with each division.

During the year the various training and development programs were continued. Our recruiting program was pursued too. Both are vital elements in meeting today's and tomorrow's needs.

Progress was made in implementing our data processing techniques. Additional applications, and further extension of our present programs will be accomplished in the current year.

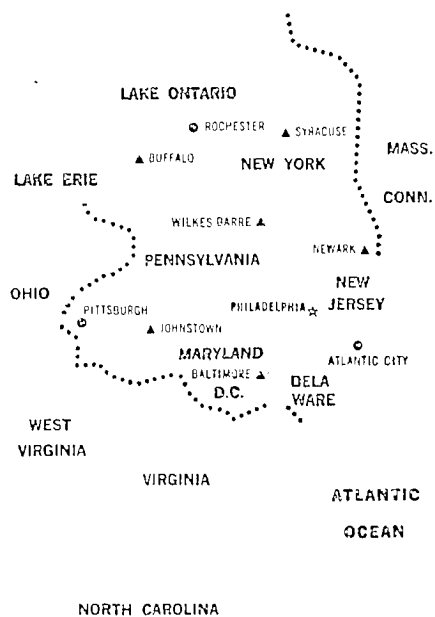
.....Dotted lines
indicate areas served
on West and East coast

● SAN FRANCISCO

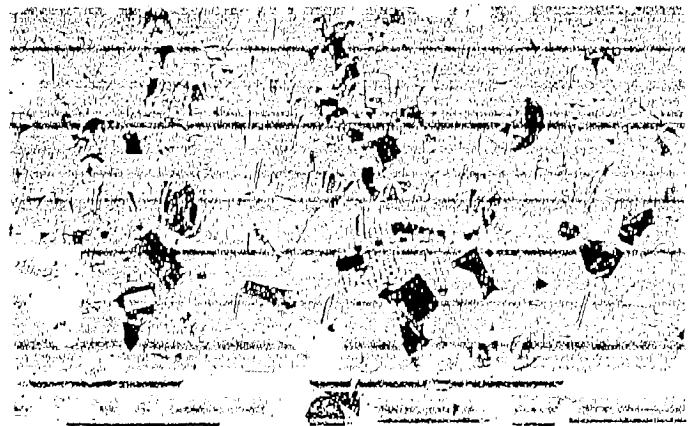


★ PHILADELPHIA, PA.
Main Office
▲ DIVISION OFFICES

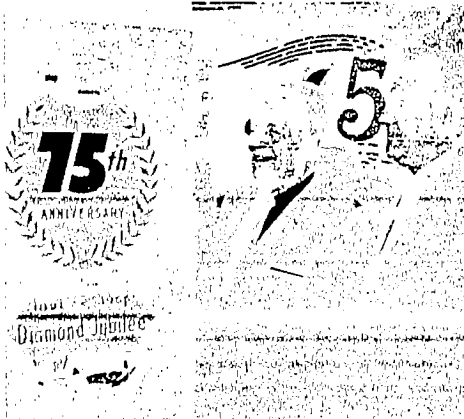
	Number of Stores
Pennsylvania	336
New York	108
New Jersey	182
Delaware	29
Maryland	92
Virginia	15
West Virginia	5
District of Columbia	3
California	<u>132</u>
Total Stores	902



Officers of the Company attended 75th Anniversary Dinners at each of our seven Eastern Divisions. The sales promotions plans for the current year were also presented at these meetings.



PHILADELPHIA, PA.



JOHNSTOWN, PA.



WILKES-BARRE, PA.



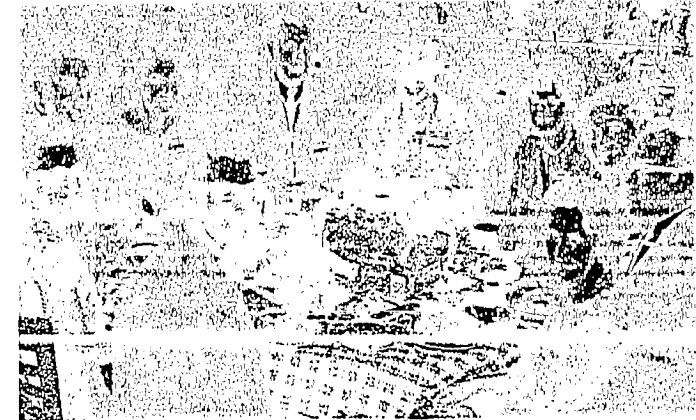
BUFFALO, N.Y.



NEWARK, N.J.



SYRACUSE, N.Y.



BALTIMORE, MD.

Fifty-two weeks ended April 2, 1966
with comparative figures for preceding period

	1966	1965
	(In Thousands)	
SOURCE:		
Net earnings	\$10,450	\$12,884
Charges against net earnings not involving the expenditure of funds:		
Depreciation and amortization	12,744	11,834
Deferred income taxes	1,122	1,786
Total funds provided from operations	24,316	26,504
Advances under instalment purchase agreement	5,193	—
Proceeds from sales of common stock pursuant to exercise of options	98	110
Realization on disposal or liquidation of investments, etc.	—	1,711
Miscellaneous, net	256	669
Total source of funds	<u>29,863</u>	<u>28,994</u>
DISPOSITION:		
Expended for plant and equipment	26,129	20,085
Plant and equipment of acquired subsidiary	—	2,025
Repayment of long-term debt	1,272	1,173
Cash dividends	5,348	5,127
Purchase of common treasury stock	984	2,551
Total disposition of funds	<u>33,733</u>	<u>30,961</u>
Decrease in working capital for the year	3,870	1,967
Working capital at beginning of year	76,299	78,266
Working capital at end of year	<u>\$72,429</u>	<u>\$76,299</u>



100.00%

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

THE BOARD OF DIRECTORS
ACME MARKETS, INC.:

We have examined the consolidated balance sheet of Acme Markets, Inc. and subsidiaries as of April 2, 1966 and the related statement of earnings for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings present fairly the financial position of Acme Markets, Inc. and subsidiaries at April 2, 1966 and the results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Peat, Marwick, Mitchell & Co.

May 12, 1966

Fifty-two weeks ended April 2, 1966 (with comparative figures for preceding period)

	FIFTY-TWO WEEKS ENDED APRIL 2,	FIFTY-THREE WEEKS ENDED APRIL 3,
CURRENT EARNINGS		
Sales	\$1,200,749,822	1,161,198,293
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	957,507,426	924,654,622
Wages, rents, advertising, administrative and other operating expenses.....	211,612,787	200,307,298
Depreciation and amortization	12,744,227	11,834,037
	<u>1,181,864,440</u>	<u>1,136,795,957</u>
Operating profit	18,885,382	24,402,336
Other income (deductions):		
Non-operating income, net	211,532	317,623
Interest expense	(411,770)	(406,360)
Earnings before income taxes	18,685,144	24,313,599
Federal and State income taxes, including deferred amounts (note 2)	8,235,000	11,430,000
Net earnings	<u>\$ 10,450,144</u>	<u>12,883,599</u>
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of period	\$ 50,170,861	50,964,416
Net earnings for the period	10,450,144	12,883,599
	<u>60,621,005</u>	<u>63,848,015</u>
Deduct:		
Cash dividends—\$2 a share	5,347,883	5,126,854
Stock dividend—5%	6,809,300	8,550,300
	<u>12,157,183</u>	<u>13,677,154</u>
Balance at end of period	<u>\$ 48,463,822</u>	<u>50,170,861</u>

See accompanying notes to financial statements.

ASSETS

	APRIL 2,	APRIL 3,
Current assets:		
Cash	\$ 32,915,314	36,957,789
Short-term marketable securities	—	999,656
Receivables	8,021,291	7,702,176
Inventories, at lower of cost or market.....	96,085,532	88,885,172
Prepaid expenses	6,113,347	5,253,453
Store properties covered by investors' commitments to purchase.....	972,614	402,021
Total current assets.....	<u>144,108,098</u>	<u>140,200,267</u>
Investments and other assets, at cost or less	2,877,713	2,379,457
Plant and equipment, at cost:		
Land	14,309,474	12,209,266
Buildings	54,288,343	47,372,890
Machinery, equipment and fixtures.....	97,382,275	88,679,234
Leasehold costs and improvements.....	17,509,451	16,574,078
	<u>183,489,543</u>	<u>164,835,468</u>
Less accumulated depreciation and amortization.....	73,118,854	66,954,197
Net plant and equipment	<u>110,370,689</u>	<u>97,881,271</u>
	<u>\$257,356,500</u>	<u>240,460,995</u>

See accompanying notes to financial statements.

April 2, 1966 (with comparative figures for 1965)

LIABILITIES AND STOCKHOLDERS' EQUITY

	APRIL 2,	APRIL 3,
Current liabilities:		
Current instalments of long-term debt (note 1)	\$ 1,272,034	1,172,835
Accounts payable	49,451,566	42,767,181
Accrued expenses	16,251,619	14,811,780
Federal and State income taxes (less in 1965 United States Treasury securities, \$1,976,044)	4,703,667	5,149,591
Total current liabilities	71,678,886	63,901,387
Long-term debt, excluding current instalments (note 1)	15,657,652	11,736,899
Deferred income taxes and investment credit (note 2)	10,950,000	9,978,000
Reserve for self insurance and unfunded retirement benefits	591,024	581,567
Stockholders' equity:		
Common stock of \$1 par value. Authorized 5,000,000 shares; issued 2,860,066 shares (1965—2,720,845 shares) (note 3)	2,860,066	2,720,845
Capital in excess of par value of common stock (note 4)	110,690,246	103,922,000
Earnings retained for use in the business, less amount capitalized through stock dividends (note 1)	48,463,822	50,170,861
	162,014,134	156,813,706
Less 60,221 shares common treasury stock, at cost (1965—39,853 shares)	3,535,196	2,550,564
Total stockholders' equity	158,478,938	154,263,142
	<u>\$257,356,500</u>	<u>240,460,995</u>

April 2, 1966

(1) Long-term Debt. A summary of long-term debt at April 2, 1966 is shown below:

	TOTAL	INSTALMENTS DUE WITHIN ONE YEAR	LONG- TERM
Notes payable:			
2 7/8 % note due			
August 1, 1967 . . .	\$ 3,450,000	\$ 337,500	\$ 3,112,500
3 % notes due			
August 1, 1967 . . .	8,050,000	787,500	7,262,500
4 1/2 % note due			
September 1, 1970 .	236,899	50,034	186,865
	<u>11,736,899</u>	<u>1,175,034</u>	<u>10,561,865</u>
Purchase agreement	5,192,787	97,000	5,095,787
	<u>\$16,929,686</u>	<u>\$1,272,034</u>	<u>\$15,657,652</u>

An instalment totaling \$1,125,000 is payable on the 2 7/8 % and 3 % notes in 1966 with the remainder of \$10,573,000 payable at maturity on August 1, 1967. The 4 1/2 % note is payable in approximately equal annual amounts to maturity and is secured by deed of trust on certain real estate of a subsidiary.

Certain of the notes contain restrictions as to the payment of cash dividends and the reacquisition and retirement of shares of stock of the company, but retained earnings at April 2, 1966 were free of restriction.

The purchase agreement relates to a warehouse property nearing completion, which is included in land and buildings at an aggregate cost of \$5,228,047. The related 20-year Instalment Sale Agreement requires equal semi-annual payments applied first to interest (initially 2 7/8 %) and the remainder to principal. The first instalment, due not later than January 1, 1967, is estimated to involve a payment of \$97,000 on account of principal.

(2) Deferred Income Taxes and Investment Credit. Depreciation charged to earnings for financial statement purposes is generally computed using the straight-line method applied to individual property items; however, for income tax purposes depreciation claimed is substantially greater as it is computed by accelerated methods applied to composite groupings of assets. Provision has been made for deferred income taxes (\$1,122,000 in 1966 and \$1,786,400 in 1965) which will be payable when depreciation for financial state-

ment purposes exceeds depreciation deductible for income tax purposes.

Federal income taxes have been reduced by \$900,000 and \$629,000 for the years ended in 1966 and 1965, respectively, by reason of the investment credit provisions of the Revenue Act. Credits for 1964 and prior, which were deferred, are being amortized over the estimated lives of the related assets.

(3) Stock Options. Under the Company's stock option plans approved by the stockholders in 1952 and 1964 there remained outstanding at April 2, 1966 options granted to 68 officers and key management employees to purchase 65,624 shares common stock at prices ranging from \$29.89 to \$69.22, such prices being either 95% or 100% of market price on the respective dates of granting, adjusted for subsequent stock dividends. The options are exercisable on a cumulative basis over a period of 10 years or less and expire on or before December 19, 1973. Under the 1964 option plan an additional 93,897 shares common stock were reserved for future option grants.

(4) Capital in Excess of Par Value of Common Stock. During the year this account was increased by the excess of:

Assigned value over par value of 136,186 shares common stock issued as a stock dividend	\$6,673,114
Sales proceeds over par value of 3,035 shares com- mon stock sold to officers and key management employees pursuant to exercise of stock options . .	95,132
	<u>\$6,768,246</u>

(5) Lease Commitments. The company and subsidiaries were lessees under 734 leases (including 63 leases for stores under construction) expiring more than three years after April 2, 1966. Such leases call for minimum annual rentals (excluding taxes, insurance and maintenance expenses where payable by the lessee) totaling \$18,704,000, of which about 10% relates to leases expiring within 5 years, 47% relates to leases expiring within 10 years, 74% relates to leases expiring within 15 years, and 92% relates to leases expiring within 20 years. Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals.

JAMES K. ROBINSON, JR.
THOMAS H. SHERRARD
JOHN R. PARK
WILFRED D. GILLEN
PAUL J. CUPP
A. J. FAULHABER
ARTHUR LITTLETON
ARTHUR C. KAUFMANN
A. KOHR SPRENKLE
CLAUDE W. EDWARDS
WILLIS J. WINN
A. E. GILFILLAN

PAUL J. CUPP, Chairman, Board of Directors
JOHN R. PARK, President
JAMES K. ROBINSON, JR., Vice President
A. J. FAULHABER, Vice President
A. KOHR SPRENKLE, Vice President
BLAYNEY J. BARTON, Vice President
WM. CARLISLE FERGUSON, Vice President
CLAUDE W. EDWARDS, Vice President
GORDON E. HOVEY, Vice President
A. E. GILFILLAN, Vice President and Assistant Secretary
JAMES A. HAMILL, Vice President
THOMAS T. CYLER, Vice President and Treasurer
S. A. GOULD, Assistant to the President
E. A. COLSON, Secretary
A. BALFOUR BREHMAN, Assistant Secretary
ROWLAND G. WEBER, Assistant Secretary
ELLEN M. CAMPBELL, Assistant Treasurer
JOHN G. C. FULLER, Assistant Treasurer

GENERAL OFFICES

124 North 15th Street, Philadelphia, Pa. 19102

TRANSFER AGENTS

The First Pennsylvania Banking and Trust Company, Philadelphia, Pa.
Bankers Trust Company, New York, N. Y.

REGISTRARS

Fidelity-Philadelphia Trust Company, Philadelphia, Pa.
First National City Bank, New York, N. Y.

STOCK EXCHANGES

New York Stock Exchange
Philadelphia-Baltimore-Washington Stock Exchange

▪ **ANNUAL MEETING** The annual meeting of the shareholders will be held at the General Offices on Wednesday, June 22, 1966 at 3:00 P.M., EDST.